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A new dynamic – urban regeneration in the Joburg CBD

Abstract

Many cities in the developed world have seen a steady decline in their inner city environments. This is especially true of the United States where major cities began to hollow out in the 1980s. In the developing world there have been similar examples, although these tend to be more complex, and less often associated with the rise of suburbs. The City of Johannesburg experienced a dramatic and rapid decline in the inner city starting from the late 1980s. It took ten years to reach the bottom of the cycle, by which time a large proportion of the asset value of private properties had been destroyed. In the process, many livelihoods and balance sheets had been decimated. The destruction of value also created opportunities, most importantly for the conversion of inner city buildings to affordable rental housing. This in turn has driven a major regeneration of the inner city, in tandem with the public sector regeneration programme.

Introduction

The decline in the inner city of Johannesburg was as rapid as it was predictable. The factors leading to this decline were partly familiar from the international urban experience, and were somewhat specific to the collapse of apartheid. Either way, the timing was unfortunate, coinciding with the larger political storm sweeping through the country. In the early 1990s – when action could have been taken – the problems of Joburg's inner city paled into insignificance as the country reeled through the interregnum between apartheid and democracy, riding out the first complex years of a new political life. It was only when Amos Masondo became Mayor in 2000, and a single local authority was created for Johannesburg, that the first real efforts gathered steam.

Inner decline in Joburg was marked, as it always is, by the withdrawal of investment from the property sector. This was due to factors familiar from the international environment: suburbanisation, poor public transport, weak administration of publicly owned properties, and ineffective management of the urban environment. In this case, however, there were specific local factors including a rigid planning regime which had effectively barred developers from producing underground parking for their buildings from the 1970s. This left a landscape of huge offices with no parking provision, and very little public transport. The City's motivation in making this decision was to incentivise tenants to use the local bus system. Instead it incentivised them to move their offices to Sandton, and then a myriad of other decentralised office locations. At the same time as Sandton began to beckon, so the apartheid edifice began to crack. The Group Areas Act, which restricted black



Traders and minibus taxis in Bree Street in the city centre.

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people to out-lying areas, became unworkable by the mid-1980s. The Influx Control Act, which tried to prevent black urbanisation, followed within a few years. A large and dynamic population arrived in the City, looking for accommodation, retail opportunities and, most importantly, well located housing. The creaking public transport system was unable to cope, giving rise to the minibus taxi industry. The taxi industry was neither predicted nor welcomed by the local authorities, which made no provision for taxi ranks, stops, or loading areas. Street traders followed the flow of commuters and the local government largely ignored this, which lead to unregulated and often chaotic trading conditions.

On the residential side, tens of thousands of people made their way into the residential districts of Hillbrow, Berea and the CBD itself, which raised density levels. Many building managers were unable to cope, and management systems broke down, especially in sectional title buildings and other environments that required greater levels of social cohesion.

Meanwhile, the City's political authorities were being displaced by the new order, and were swept aside in the democratic elections of 1994. The newly elected local authorities had a wide range of problems to deal with, and were subjected to a dizzying process of institutional restructuring which went on for six years, robbing new City management of a stable basis from which to operate. The City effectively reached the point of bankruptcy in 1998, precipitating a bail-out from the National Treasury which, in turn, led to a process of restructuring, creating a metropolitan municipality in 2000. This laid the basis for more effective local government. The long process of urban regeneration began, in tandem with other forms of urban restructuring including the proper integration of the townships and investment in township infrastructure. Urban regeneration became one priority among many, but at least it was on the radar. Thus began a long slow process of inner city regeneration

which must count as one of the world's great urban renewal stories, at least in terms of the scale and complexity of the challenge. This process is still very much in progress, but it is clear that a great deal of momentum has been built and large scale investment has returned in to the area.

Factors leading to regeneration

There are four main factors that have led to significant improvements in the inner city, and to the wave of investments now taking place:

- Public investment in urban renewal and infrastructure
- City Improvement Districts
- Institutional and corporate investment
- Private, entrepreneurial investments, particularly in the residential sector

Public investment

In April 2001 the City established the Johannesburg Development Agency (JDA), tasked primarily with inner city regeneration. The JDA became a platform for public investment which has breathed new life into the area. The JDA's investments can be divided broadly into two phases. The first 5 years of the agency's life saw a focus on high profile one-off investments aimed at catalysing the process of regeneration. These included the Nelson Mandela Bridge, which quickly became a symbol of inner city renewal; the much-celebrated Constitutional Court; and the Newtown development which included the establishment of a major new events space at Mary Fitzgerald Square. Collectively these projects brought attention to the potential of the inner city and the importance of reversing its decline. They also created a sense of excitement and energy in relation to the CBD, and began to create a community of enthusiasts and investors.

Perhaps the most significant intervention of this period was the creation of the Rea Vaya, Johannesburg's Bus Rapid Transit system. A large portion of the first phase runs through the inner city.

The second phase has seen a series of less high-profile but more sustained initiatives, often aimed at supporting and catalysing private sector investments. The JDA projects in this second period included many precinct upgrades in which public spaces and infrastructure were created, replaced or improved. This includes public lighting, pavements, small urban squares, parks and community halls – all the ingredients of urban public space. This was supplemented by a programme of creating outdoor public artworks throughout the inner city and in many of its parks, helping to create a sense of place and a renewed affection for the City. Perhaps the most significant intervention of this period was the creation of the Rea Vaya, Johannesburg's Bus Rapid Transit system. A large portion of the first phase runs through the inner city. This not only means a significant improvement in the public transport linkages both to the inner city and within the area, but has also created a new visual landscape as the acclaimed Rea Vaya stations bring a creative and attractive new element to the public environment.

City Improvement Districts

The Gauteng government approved legislation in 1997 creating a platform of City Improvement Districts (CIDs). This enabled property owners in a defined area to



Rea Vaya, Johannesburg's Bus Rapid Transit system

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collect levies over and above existing rates and taxes, to be used to fund private sector management of the area. The property owners establish a non-profit company to collect the levies and use the funds to provide security, cleaning, marketing, greening, park management and other services that help to uplift and protect their area. In terms of the legislation – which was modelled on the Downtown Associations of large USA cities – if more than 50% of property

owners agree to the scheme, the remaining owners are obliged to participate. This overcomes the free rider problem and allows for collective management of an area.

The CID opportunity was quickly taken up by inner city property owners, under the leadership of Neil Fraser of the Central Johannesburg Partnership. There are now nine CIDs in the inner city, and they have made a huge difference to the level of safety and cleanliness in the area. The CIDs work in partnership with the city authorities including the Metro Police who operate a closed circuit TV system which has greatly assisted in bringing down levels of street crime. The CIDs are a crucial factor in inner-city management.

Investment trends

Commercial office property – Large tenants and new investors

Major capital flight took place in the 1990s and early 2000s and the office sector was the first to suffer. The CBD had been the City's premier office environment for a hundred years, and it lost this position in about five years. Unable to cope in the new environment, tenants moved north, and empty buildings were boarded up or seized by illegal occupants. In the face of these problems, and with the office market collapsing, many property owners practically abandoned their buildings. There are indeed several examples of corporates who gave their buildings away and others who sold buildings for the value of the balance on the rates and utilities account.



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The city centre's financial district.

However, some corporates and institutional investors remained in place, resisting the flight to the calmer, less diverse northern suburbs. In particular, some of the large banks played an important role by staying put. Standard Bank, Absa and FNB all remained in their large inner city premises, and were active in City Improvement Districts. All three played a role in the Central Johannesburg Partnership. FNB's Bank City is a major property that has anchored the area in which it is located. Absa has recently made some very large investments in upgrading the area in which it is located, and Standard Bank continues to maintain its head office and related complex and has recently built additional parking. Some other large corporates also remained: notably Anglo American in its Main Street and Marshall Street Offices; and Anglo Gold Ashanti whose long lease enabled Tiber to redevelop the magnificent Turbine Square in Newtown. Sappi not only stayed in Braamfontein, but played a hugely supportive role in the area. Transnet, Billiton, the Chamber of Mines and several others also remained, providing crucial support.

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Over time, new office investors came to the fore. A number of companies, including Apexhi (later Redefine/Arrowhead), Olitzki Property Holdings, and Johannesburg Land Company all saw the opportunity of rock-bottom prices and bought up office buildings for redevelopment. They have all done well out of those investments. Johannesburg Land Company has recently completed a brand new office building for Zurich Re-insurance. This building, along with Turbine Square, represents the first brand new office stock for many years.



The Brickfields housing project in Newtown

It is a mixed use development, making use of old and dilapidated buildings and turning these into unusual retail, housing and office buildings, anchored by the arts offering which includes artists' workshops, galleries, and other creative spaces.

Perhaps one of the most important anchors in the CBD office environment was the Gauteng government. This was a new sphere of government created in 1994. However, they took over certain functions of the old Transvaal administration, which was largely based in Pretoria. In the mid-1990s, with the encouragement of the Central Johannesburg Partnership, they took the decision to move to Johannesburg taking a significant amount of rented office space. They have been a crucial presence in the CBD, as has the City of Johannesburg in Braamfontein.

Retail

The retail environment in the CBD is mixed, but has generally become a hub for low-cost goods, especially clothing. This is concentrated in the eastern side of the CBD and consists largely of imported goods. Shops are generally small and sidewalk trade continues to be a major factor. There are some specialised retail areas, such as the 'Fashion District' and the Ethiopian Quarter, which is a growing and vibrant area. There is some higher-level retail, notably at the Carlton Centre and surrounds, and along the lovely Main Street Boulevard. Some larger clothing and grocery stores and well known retail chains are represented in the CBD. Shoprite, Pick and Pay, Edgars, Game and Woolworths all have offerings and Cambridge/Massmart has been expanding aggressively in recent years. However, retail is generally poorly organised, under-represented and constrained by the lack of appropriate property offerings with requisite delivery space, parking and the like. All of that is about to change with the building of the CBD's first mall in Newtown. Developed by Atterbury and located at the old Potato Sheds of the Market precinct, this mall is a major investment in the area, and will enable residents, office workers and visitors to the area to access all the major retail offerings. There will also be

an office development which includes call centres for Nedbank. This is the largest investment in the CBD for many years.

There are also a number of other noteworthy investments like the Maboneng precinct in the eastern portion of the CBD, bordering Jeppestown. Maboneng, which started as Arts on Main, is a highly creative and ambitious project which now consists of over twenty buildings. It is a mixed use development, making use of old and dilapidated buildings and turning these into unusual retail, housing and office buildings, anchored by the arts offering which includes artists' workshops, galleries, and other creative spaces. A twice weekly market has been very successful.

Residential conversions

All of this would probably not have been possible without the key driver of investment in the CBD over the last 15 years – the conversion of office stock to residential units. Hundreds of buildings have been converted, and there are now some 40 000 new or renovated units with an average rental of about R2500 per month.

The first such units were created by non-profit organisations such as the Johannesburg Housing Company and Madulamoho Housing. More recently, the state-backed social housing grant has enabled many more units to be created in the subsidised rental market. Even these efforts are outweighed by the remarkable achievements of private, entrepreneurial developers. Starting in the late 1990s, when property prices were very low, a few individuals, and then a few companies, started to convert old office buildings into affordable residential accommodation. The sceptics were many, and the developers faced real difficulties in accessing finance and in dealing with day to day realities such as the hijacking of buildings, and difficulties in collecting rent. However, over time, the better companies (and generally those with a deeper commitment to housing) found ways around these problems, and the market began to grow. There were technological breakthroughs (biometric access control; improved building methods; heat pumps) and crucially, breakthroughs in the provision of finance.

The quality of units varies from one company to another. But on the whole, the companies offer an outstanding affordable housing product. Generally small, many of the units boast granite kitchen tops, fully tiled bathrooms and built in cupboards. Some offer internet connection. The demand for units is high, primarily as a result of their location and the consequent tenant savings in time and transport costs. There is no doubt that the quality of these units is also a factor.

On the financial side, there have been a number of important factors in growing this market. The Trust for Urban Housing Finance (TUHF) was established in 2003 by the National Housing Finance Corporation, a state entity, as a specialist outfit to fund the refurbishment of inner city buildings. It is an outstanding organisation which knows its market well, and has been a crucial factor in the expansion of the inner city housing market. Over the years it has been able to attract funding from Futuregrowth, the PIC, Standard Bank as well as the NHFC and the Gauteng Partnership Fund.



View westwards along the revamped and pedestrianised Main Street, city centre.

There are still many challenges ahead for the CBD. The office sector still faces major vacancies, and rental levels have been too low in recent years to attract new buildings.

Over time there has been some consolidation in this market, and a number of larger inner city housing companies now exist. These include Afhco (the Affordable Housing Company, considered by many as the pioneer in this market); City Property; Jozi Housing; Jika Housing and Circlevest. There are also a number of individuals with large portfolios. Some of these companies have outstanding social programmes to support their tenants. Afhco for example, started their own school to address the difficulty that their tenants have in accessing primary schooling in the inner city, and also manages a number of parks in partnership with Johannesburg City Parks and the JDA. A number of companies run homework clubs and sports activities for their tenants.

The companies perform well from a financial perspective, with very low rates of bad debt and few vacancies. Demand still exceeds supply despite the huge expansion in the number of units. Some of these companies now have institutional backing and Old Mutual is an equity funder of a number of these initiatives. One of the companies is part of a listed entity, and there is talk of a residential Real Estate Investment Trust being listed on the JSE, in time.

The emergence of these inner city housing companies is a great example of an enlightened market response. The first movers in this market were people who saw an opportunity, were willing to take major risks, and had a genuine commitment to affordable housing, and to their tenants. On the whole the companies have been successful financially, but in achieving this success they have made an outstanding social contribution. Not only have they provided affordable housing at scale, they have also refurbished large numbers of buildings bringing these back into a positive investment cycle.

Conclusion

There are still many challenges ahead for the CBD. The office sector still faces major vacancies, and rental levels have been too low in recent years to attract new buildings. The Gauteng Government's Kopanong project has seen epic delays, and is a great source of uncertainty in the office market. The housing sector continues to grow, but needs greater support from the City, both in terms of rates and services, and the provision of social facilities such as parks, schools and clinics. There are still hijacked buildings, and slum-lords still ply their trade, especially in Hillbrow, Berea and Bertrams.

However, it is certainly true that the CBD has seen a major revival. This is evident not only in firmer property prices, ongoing residential investment and improved infrastructure, but also in the feeling of confidence and vibrancy that one experiences in the CBD. Tours of the area now take place regularly, public transport is much more efficient, and new markets are opening up. Most importantly, thousands of families live in the CBD and benefit from its revival. It has been a tough but remarkable journey so far, and one which has much to teach us. It is a great example of what can happen when a vibrant entrepreneurial market is supported by a committed public sector.